

Message Text

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ACTION NEA-10

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C O N F I D E N T I A L DAMASCUS 8678

E.O. 11652: GDS
TAGS: ECON, EAID, SY
SUBJECT: FURTHER CONVERSATION WITH MINECON IMADI ABOUT SYRIAN
FINANCIAL CRISIS

REF: DAMASCUS 8637

1. SUMMARY:

IMADI IS PARTICULARLY INTERESTED IN SECURING A
BANK LOAN SUCH AS EYGPT RECEIVED "SOME MONTHS AGO" AT
LOWER THAN COMMERCIAL RATES. HE THINKS IT UNLIKELY THE POLITICAL
LEADERSHIP WOULD SANCTION AN EFFORT TO SECURE A EURODOLLAR LOAN
BASED ON BOND ISSUANCES. HE PREDICTS ASAD WILL TOUR THE PENINSUAL
FOR FUND RAISING. THE SYRIAN ARMED FORCES OPERATING
EXPENDITURES IN 1976 HAVE REACHED TOTAL OF L.S. 5 BILLION,
I.E., L.S. 1.5 BILLION OVER THE AMOUNT PROJECTED FOR THIS
YEAR. END SUMMARY.

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2. IN FURTHER DISCUSSION DECEMBER 19, IMADI CLARIFIED
CERTAIN COMMENTS ON SYRIAN FINANCIAL CRUNCH REPORTED REFTEL.
FIRST OF ALL HE CONFIRMED THAT HIS PROBLEM IS A FOREIGN
EXCHANGE ON ENA DNOT RPT NOT A BUDGETARY CRISIS OWING TO
SHORTAGE OF LOCAL CURRENCY. HE SAID THAT "UBAF" (UNION BANCAIRE
ARABE FRANCASIE) IN NEW YORK HAD BEEN IN CONTACT WITH HIM IN

RECENT DAYS INQUIRING WHETHER HE WISHED TO SEEK A COMMERCIAL LOAN. HE IS INTERESTED BUT ONLY IF HE CAN GET ONE AT LOWER THAN PREVAILING COMMERCIAL RATES, SUCH AS HAD BEEN ARRANGED FOR EGYPT SOME MONTHS AGO. HE UNDERSTANDS THAT EGYPT RECEIVED A LOAN OF \$250 MILLION WHICH WAS PUT TOGETHER IN THE UMS. A LOWER THAN NORMAL INTEREST RATE WAS POSSIBLE BECAUSE THIS LOAN WAS GUARANTEED BY THE "GULF FUND," IMADI' TERM FOR THE ORGANIZATION SET UP BY THE PENINSULA STATES, INCLUDING SAUDI ARABIA, EARLIER THIS YEAR TO ASSIST EGYPT.

3. WE DISCUSSED BRIEFLY THE IDEA OF SEEKING A EURO-DOLLAR LOAN GUARANTEED BY THE ISSUANCE OF BONDS BY A FOREIGN EXCHANGE EARNING ENTITY OF THE SYRIAN GOVERNMENT SUCH AS LATTAKIA PORT. IMADI SAID THAT HE DOUBTED THE POLITICAL LEADERSHIP WOULD AGREE TO SO MARKED A DEPARTURE FROM EXISTING POLICY., GIVEN SYRIA'S UNPLEASANT MEMORIES OF FRENCH BOND HOLDERS OWNING THE PUBLIC UTILITIES HERE UNTIL INDEPENDENCE.

4. HE THEN RETURNED TO OUR DECEMBER 16 DISCUSSION ABOUT PROSPECTS OF ASAD HIMSELF DOING SOME FUND RAISING IN THE PENINSULA. HE NOTED HAD HIMSELF TALKED ABOUT THIS WITH THE PRESIDENT PREVIOUSLY. HE THOUGHT THE PRESIDENT MIGHT MAKE SUCH A TRIP AFTER HE HAD RETURNED FROM HIS PRESENT TRIP TO CAIRO.

5. MILITARY DEMANDS FOR FOREIGN EXCHANGE:

I RECALLED THAT IN OUR OCTOBER MEETING, IMADI HAD PROJECTED
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LEBANESE CRISIS RELATED EXPENDITURES FOR 1976 ON THE ORDER OF LS 10 BILLION (US\$2.6 BILLION). (DAMASCUS 7062). HAD EVENTS BORNE THIS OUT? IMADI REPLIED THAT IN THE 1976 BUDGET DRAWN UP IN LATE 1975 THE SYRIAN ARMED FORCES HAD BEEN ALLOTTED AN OPERATING BUDGET OF L.S. 3.5 BILLION (US \$ 908 MILLION). IT HAD EXCEEDED THESE EXPENSES BY L.S. 1.5 BILLION (US \$ 385 MILLION), MAKING A TOTAL FOR CALENDAR YEAR OF L.S. 5 BILLION (US \$ 1.3 BILLION). THERE WERE MANY OTHER EXPENSES ASSOCIATED WITH THE LEBANESE CRISIS BUT HE COULD NOT OFFHAND QUANTIFY THEM.

6. THE SYRIAN CENTRAL BANK NO LONGER HOLDS ANY SIGNIFICANT AMOUNT OF LEBANESE CURRENCY. A FEW MONTHS AGO WITH THE INFLUX OF MANY LEBANESE REFUGES, SARG HAD DETERMINED TO FREEZE ITS SIZEABLE LEBANESE POUND HOLDINGS LEST IT OTHERWISE ADVERSELY AFFECT THE VALUE OF THE LEBANESE POUND. HOWEVER, SINCE THEN THE SYRIAN ARMY HAD MADE MANY DEMANDS FOR THIS CURRENCY AND HE HAD AGREED TO RELEASE

IT.

7. COMMENT:

IMADI EXCLUDED DEBT REPAYMENT BY SYRIAN ARMED FORCES FROM THE T.S. 3.5 BILLION OPERATING EXPENSES. ASAD HIMSELF REVEALED LAST APRIL THAT SYRIA OWED THE USSR LS1.5 BILLION FOR 1976.) WE ASSUME THAT THE EXTRA EXPENSES INCURRED BY THE ARMED FORCES HAVE BEEN CONSUMED IN TWO PRINCIPAL CATEGORIES: POL AND BONUS FOR THE SYRIAN MILITARY WHO HAVE BEEN DETAILED TO LEBANON.

8. IN THIS MEETING, IMADI REMAINED AS CONCERNED AS HE HAD BEEN ON DECEMBER 16. HE SAID HE HAD JUST THAT MORNING DISPATCHED A TELEGRAM TO THE SAUDI MINISTER OF FINANCE DESCRIBING SYRIA'S FINANCIAL CRISIS AND EXPRESSING THE HOPE THAT SAUDI ASSISTANCE WOULD SOON BE FORTHCOMING.

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9. ACTION REQUESTED:

ADVISE CONDITIONS ON EGYPT'S BANK LOAN DISCUSSED BY IMADI IN PARA 2.
MURPHY

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